

Message Text

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SUBJECT: ECONOMIC DISCUSSION DURING SAUDI VISIT TO FRG

REF: (A) STATE 142062 (B) BONN 12218

1. IN THE COURSE OF THE VISIT BY CROWN PRINCE FAHD AND PARTY TO THE FRG, SAUDI MINISTER OF FINANCE AND ECONOMICS, ABA AL KHAIL; MINISTER FOR PLANNING HISHAM NAZER AND MINISTER FOR INDUSTRY AND ELECTRICITY DR. GHAZI AL COSAIBI, CALLED ON FRG ECONOMICS MINISTER COUNT LAMBSDORFF FOR A GENERAL DISCUSSION. THE CONVERSATION WAS NOT LENGTHY AND MAINLY COVERED THE OUTLOOK FOR PETROLEUM, PROSPECTS FOR INVESTMENT IN SAUDI ARABIA AND A PROPOSED FRG INVESTMENT PROTECTION TREATY WITH SAUDI ARABIA.

2. TALKS BEGAN WITH A REVIEW OF BI-LATERAL SAUDI-GERMAN TRADE. SAUDI ARABIA IS GERMANY'S MOST IMPORTANT TRADING PARTNER AMONG THE ARAB STATES: DM 8.4 BILLION IN 1977. THE FRG'S IMPORTS (ALMOST EXCLUSIVELY OIL) TOTALED DM 4.46 BILLION WHILE EXPORTS TO SAUDI ARABIA
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WERE WORTH DM 3.95 BILLION. SAUDI ARABIA RANKS AS THE FRG'S CHIEF SUPPLIER OF OIL (20 MILLION TONS IN 1977) WHILE LIBYA IS IN SECOND PLACE.

3. THE FIRST SUBJECT RAISED BY THE SAUDIS WAS A COMPLAINT ABOUT THE LOSS OF OIL REVENUES DUE TO THE DOLLAR'S DECLINE. A SOURCE AT THE MINISTRY OF ECONOMICS

TOLD US THAT WHILE THE SAUDIS COMPLAINED ABOUT THE LOSS OF REVENUES TO OPEC COUNTRIES AND THAT SOMETHING WOULD HAVE TO BE DONE ABOUT IT, AT THE SAME TIME THEY CONTINUED TO OPPOSE A PRICE INCREASE THIS YEAR. THE SAUDI'S THEN WENT INTO A LONG DISCOURSE ALONG THE LINES OF STATEMENTS ATTRIBUTED TO OIL MINISTER YAMANI REPORTED IN REFTEL (A).

4. (IN THE GERMAN PRESS, FRG MINISTER FOR RESEARCH AND TECHNOLOGY, VOLKER HAUFF, WAS REPORTED AS SAYING YAMANI HAD "WARNED" THE WESTERN INDUSTRIAL STATES OF PAINFUL PRICE INCREASES FOR OIL AT LATEST BY 1980 UNLESS ENERGY SAVINGS AND OTHER MEASURES TAKEN BY CONSUMING COUNTRIES WERE EFFECTIVE SOON. YAMANI WAS QUOTED AS SAYING HE WAS FOLLOWING THE PROGRESS OR LACK THEREOF OF ENERGY SAVING MEASURES VERY CLOSELY AND ADDED THAT HE WAS VERY PESSIMISTIC ABOUT THE SITUATION, SINCE SUCH MEASURES WERE NOT POPULAR POLITICALLY. HE FEARED THAT "THE EUROPEANS" APPEARED TO NEED A NEW OIL PRICE SHOCK BEFORE THEY REALIZED THE SERIOUSNESS OF THE SITUATION.) IN REPLY TO THESE ARGUMENTS THE GERMANS EXPRESSED THEIR CONFIDENCE THAT THE WESTERN WORLD WAS GROWINGLY AWARE OF THE PRECARIOUSNESS OF THE OIL SITUATION AND OF THE NEED TO IMPROVE CONSERVATION PRACTICES. THEY SAID THAT EUROPEANS WERE MAKING PROGRESS ON THIS SCORE.
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5. ON THE SUBJECT OF INVESTMENT, DISCUSSION CENTERED ON SAUDI ENCOURAGEMENT FOR INCREASED GERMAN INVESTMENT. THE SAUDIS INDICATED THEIR PREFERENCE FOR A POLICY OF DIVERSIFIED INVESTMENT, I.E. ENCOURAGING INVESTMENT FROM SEVERAL COUNTRIES SO THAT NO ONE COUNTRY WOULD BECOME TOO PREDOMINANT. THEY WERE PARTICULARLY INTERESTED IN GERMAN COOPERATION FOR ESTABLISHMENT OF A PETROCHEMICAL INDUSTRY. THEY PRAISED GERMAN PRODUCTS, ENGINEERING AND PLANT, BUT COMPLAINED ABOUT HIGHER PRICES AS A RESULT OF MORE EXPENSIVE DEUTSCHMARKS. THE GERMANS REPLIED THAT THEY WOULD GLADLY ENCOURAGE GERMAN FIRMS TO LOOK CLOSELY AT PROJECTS IN SAUDI ARABIA AND SUGGESTED THAT THE TWO COUNTRIES SHOULD NEGOTIATE AN INVESTMENT PROTECTION TREATY AS A SORT OF UMBRELLA TO ENCOURAGE PRIVATE GERMAN INVESTMENT. THE SAUDI'S APPEARED OFFENDED AT THIS IDEA, TAKING IT AS SOMETHING OF AN INSULT TO THEIR FINANCIAL STANDING. THE MEETING ENDED, HOWEVER, WITH AGREEMENT TO CONTINUE DISCUSSION OF INVESTMENT IN THE UPCOMING MEETINGS OF THE GERMAN-SAUDI ECONOMIC COMMISSION, WHICH MEETS PERIODICALLY TO DISCUSS BILATERAL ECONOMIC MATTERS.

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